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RUCPDO/DEPT OF COMMERCE WASHDC

UNCLAS SECTION 01 OF 03 PRAGUE 000244

SIPDIS

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SENSITIVE

STATE FOR EUR/NCE EFICHTE AND EB/IPE JBOGER
STATE PASS USTR FOR JCHOE-GROVES AND WMOORE
COMMERCE FOR 4232/ITA/MAC/MROGERS
COMMERCE PASS USPTO
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E.O. 12958: N/A
TAGS: [KIPR](#) [ETRD](#) [ECON](#) [EZ](#)
SUBJECT: IPR SITUATION AT CZECH BORDER MARKETS

REF: A. PRAGUE 160

B. STATE 7944

1. (SBU) SUMMARY AND COMMENT: Czech authorities are aware of current industry complaints regarding IPR violations in the Czech Republic, particularly at the open air markets near the Austrian and German borders. The Czech government has introduced new legislation and strengthened existing legislation to address the issue and has given new competency to the 6,000 armed inspectors of the Customs Directorate. However, the sheer size of some of these markets and the degree of lawlessness speak to the need for reinvigorated efforts, particularly the need for close coordination with local police. Post continues to support Ref A recommendation that the Czech Republic remain off of the Special 301 Watch List given the positive trend in legislation and enforcement. Post believes the Czech government must be engaged at the highest levels and given the opportunity to address the situation more aggressively. The Ambassador plans to raise this issue in upcoming meetings with the Trade Minister and Prime Minister. END SUMMARY AND COMMENT.

2. (U) Despite the increasing number of raids and seizures and the stronger IPR legislation, closing the border markets has proven problematic. Markets are often located in small, economically depressed areas blighted by structural changes in the economy that have created high unemployment (20% vs. national average 7.7%) and few jobs. Tens of thousands of the estimated 250,000 to 350,000 Vietnamese living in the Czech Republic are earning a living at these open markets, often the only source of employment for people with limited Czech language skills. For these reasons, despite strengthening legislation and greater enforcement efforts at the national level, local authorities have been hesitant to shut the markets down, but not doing so has often given way to an air of lawlessness that has made it possible for well-organized crime syndicates to develop. Customs officials admit that the markets have also increased street prostitution and drugs in these communities.

Strengthening Legislation

3. (U) Since Czech accession to the EU in 2004, a number of IPR laws have come into force that have strengthened the hand of enforcement and court proceedings. The strengthening trend is a result of lessons learned by local enforcement officials in the uphill battle to combat piracy in the Czech

Republic:

2007 (expected):

- Law on Consumer Protection and Customs Enforcement amended to strengthen the provision for registering vendors (vice stall owner who may live overseas).
- New criminal code that will increase fines and punishment for IPR violations.
- Copyright Act expected to be amended again for further accordance with EU law

2006:

- New Law on Consumer Protection and Customs Enforcement gives 6,000 customs officials a new mandate to fight piracy (versus previous mandate for only 300 Czech Trade Inspection officials)
- law on civil procedure, Copyright Act amended again for further accordance with EU law

2005:

- Copyright Act amended in accordance with EU law

Enforcement Statistics

14. (U) The Customs Office statistics indicate that over 300 open air markets exist in the Czech Republic. Most of these are legitimate markets, selling items such as garden gnomes, plants, fertilizers, and Asian groceries. Customs has identified 13 markets of "serious concern" and have focused their enforcement efforts on them. Czech Trade Inspection officials provided the following seizure statistics:

2006:

Total Pirated Articles = 998,000

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% DVDs and CDs = 83%

2005:

Total Pirated Articles = 666,000

% DVDs and CDs = 51%

2004:

Total Pirated Articles = 970,000

% DVDs and CDs = 48%

According to officials, part of the increase in DVD and CD seizures is a result of greater focus on this type of piracy as well as 'big-box' wholesalers like Tesco driving out the open-air markets' textile business. The Usti nad Labem and Pilsen regions, where Cheb is located, accounted for over 80% of the seizures in 2006. According to raid statistics from the Customs Directorate, the Cheb Asia Dragon Market was raided 42 times from January to October 2006, and the similarly sized 500 stall market Dragoun, located less than 10 kilometers from Asia Dragon and the second largest in the country, was raided 58 times from January to October 2006.

15. (U) In May 2006, the Customs Directorate received full authority to fight IPR violations along side Czech Trade Inspection. Customs officials provided seizure data covering the period from May to December 2006:

2006:

Total IPR raids = 11,687

Total Pirated Articles = 1,600,000

% DVDs and CDs = 20%

Taken together, the Customs Directorate and the Czech Trade Inspection seized nearly 2,600,000 pirated articles in 2006, of which 44% were seized DVDs and CDs.

16. (U) Econoffs met with local and Brussels-based representatives of the recording industry's anti-piracy lobby

group International Federation of the Phonographic Industry (IFPI) March 6 to discuss IFPI's recommendation that the CR be placed on the Priority Watch List. The focus of the discussion was the problem of open air markets, especially those close to the German and Austrian borders. IFPI Europe Deputy Director Stefan Krawczyk said there are 53 open air markets in the CR, of which 15 are considered "major." He reiterated reasons from their Special 301 submission, including significant increases in domestic production of pirated CDs, the establishment of brick and mortar "permanent" pirate shops, and inadequate action by local police. He also said that there were some improvements in anti-piracy legislation and that anti-piracy enforcement competence going from the Czech Trade Inspection to the Customs Office was a good thing since their experience with customs was generally quite good. They lamented the slow nature of the court system.

Embassy Visit to Cheb

17. (U) Accompanied by three IFPI representatives, Econoff visited the open air Asia Dragon Market in Cheb on March 7, 2007. The Asia Dragon, located approximately two hours west of Prague, has been cited by industry groups as one of the largest outdoor piracy markets in Europe. Econoff saw approximately 500 stalls spread over two or three football fields; according to Customs' statistics, this is the largest open air market in the Czech Republic. The 30%-40% of vendors open for business were selling low quality shirts, sweaters, bags, and watches with designer names, all of which appeared to be counterfeit. Approximately 5%-10% of the stalls had DVD and CD displays, again, all of which appeared to be counterfeit. Reviewing the full variety of goods for sale was impossible since many of the vendors closed their stalls as we approached. Mr. Krawczyk appeared the night before on a televised news broadcast regarding the border markets and piracy, and vendors may have recognized him as they often distribute amongst themselves photographs of inspectors, undercover cops, and anti-piracy advocates.

18. (U) At one stall, Econoff and Mr. Krawczyk asked to listen to a music CD on display, inquired about pricing, and then attempted to walk away. At this point, the Vietnamese seller grabbed the arm of Econoff and tried dragging him back to the stall while offering a deal on two CDs. Econoff resisted

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saying he was not interested, whereby he was pushed and kicked out of the store. A second Vietnamese seller approached Econoff and tried to jump-kick Econoff in the stomach, but was blocked. The assault ended when one of the IFPI representatives screamed "stop." There were no local authorities on the scene and no one else seemed to notice what had happened. IFPI reports that their inspectors have similarly been assaulted for collecting data on the number of stalls and pirated goods for sale.
MUNTER